



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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April 12, 2011

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **INTERNATIONAL INSTITUTE OF LOS ANGELES CONTRACT REVIEW
– A DEPARTMENT OF PUBLIC SOCIAL SERVICES REFUGEE
EMPLOYMENT PROGRAM PROVIDER**

We completed a program, fiscal and administrative contract review of International Institute of Los Angeles (IILA or Agency), a Department of Public Social Services (DPSS) Refugee Employment Program (REP) provider. REP Program services are provided to refugees who have resided in the United States for less than five years. The services include performing participant skills and needs assessments, facilitating job placement and retention services, and referring participants to additional available resources. The purpose of our review was to determine whether IILA appropriately accounted for and spent REP funds. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with the County contract and applicable guidelines.

REP Program services are separated into eight service areas. DPSS contracts with IILA to provide services for service area one (SA1) and service area two (SA2). DPSS compensates IILA at a fixed monthly fee for each participant and requires the Agency to return any unspent revenues. DPSS paid the Agency approximately \$477,000 for SA1 and \$482,000 for SA2 during Fiscal Year (FY) 2009-10. IILA's services during FY 2009-10 to SA1 included residents of the First, Third and Fifth Supervisorial Districts and services to SA2 included residents of all Supervisorial Districts.

Results of Review

The program participants met the eligibility requirements for REP services. In addition, the Agency's staff possessed the required qualifications. However, IILA did not always comply with the other contract requirements. Specifically, IILA:

- Did not always schedule appraisal interviews and refer participants to supportive services within required timeframes.

IILA's attached response indicates that they had an excessive participant caseload and discontinued new participant interviews. IILA indicated in our exit meeting that they are now scheduling appraisal interviews and referring participants to supportive services timely.

- Did not ensure bank reconciliations were signed and dated by the preparer.

IILA's attached response indicates that they will adhere to the contract requirements.

- Did not properly allocate \$4,684 in fixed asset and equipment costs to the REP Program.

IILA's attached response does not clearly indicate their position but they did voice disagreement at our exit meeting. We explained to IILA that their allocation method is not allowable per Office of Management and Budget (OMB) Circular A-122 requirements. DPSS indicated that they will work with IILA to ensure that our recommendations are implemented.

- Did not ensure the fixed assets and equipment listings were accurate.

IILA's attached response indicates that they will update their fixed assets and equipment listings.

- Did not report all equipment disposals and purchases made with REP Program funds to DPSS as required.

IILA's attached response does not clearly indicate their position but they did indicate during our exit conference they will adhere to the equipment reporting requirements.

- Did not appropriately charge salary costs for five (71%) of the seven employees reviewed, resulting in overcharging \$751 for one pay period.

IILA's attached response indicates that they provided cost of living increases for their employees and that the contract does not require them to request approval to increase salaries. However, the County contract does not allow for cost of living

increases and restricts IILA from paying salaries higher than those authorized in the contract.

- Did not ensure their Cost Allocation Plan specifies an allowable allocation method for shared fixed assets and equipment.

IILA's attached response indicates agreement that their Cost Allocation Plan does not specify an allocation method and that they allocate shared fixed asset and equipment costs based on estimated usage. However, this is not an allowable allocation method per OMB Circular A-122 requirements.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with IILA on September 29, 2010 and with DPSS in November 2010. IILA disagreed with most of the findings noted during our review and the Agency refused to provide a Corrective Action Plan. DPSS will take all the appropriate action including working with IILA to ensure that the recommendations are implemented.

We thank IILA management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:JET:DC:AA

Attachment

- c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, Department of Public Social Services
Julia Vera, Board Chair, IILA
Steve Voss, Chief Executive Officer, IILA
Public Information Office
Audit Committee

**REFUGEE EMPLOYMENT PROGRAM
INTERNATIONAL INSTITUTE OF LOS ANGELES
FISCAL YEAR 2009-10**

ELIGIBILITY

Objective

Determine whether the International Institute of Los Angeles (IILA or Agency) provided services to individuals that met the eligibility requirements for Refugee Employment Program (REP) services.

Verification

We visited two IILA service sites and reviewed the case files for 30 (2%) of the 1,644 participants that received REP services during November and December 2009.

Results

All 30 program participants met the eligibility requirements for REP services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether IILA provided the services in accordance with the County contract and REP Program guidelines. In addition, determine whether the program participants received the billed services.

Verification

We reviewed the case file documentation for 30 participants that received services during November and December 2009.

Results

IILA generally provided the program services in accordance with the County contract. However, the Agency did not schedule an initial assessment ("appraisal") interview within 30 days as required for three (10%) of the 30 participants reviewed. Specifically, the appraisals were scheduled 39, 34, and 9 days late, respectively. In addition, IILA did not refer one (3%) of the 30 participants to mental health supportive services within 24 hours as required; the referral was made 36 days late.

Recommendation

1. IILA management schedule appraisal interviews and refer REP Program participants to supportive services within the required timeframes.

STAFFING QUALIFICATIONS

Objective

Determine whether IILA staff possessed the qualifications required by the County contract.

Verification

We reviewed the personnel files for seven (37%) of the 19 IILA employees that worked on the REP Program.

Results

IILA's staff possessed the qualifications required by the County contract.

Recommendation

None.

PERFORMANCE OUTCOMES

Objective

Determine whether IILA met the planned performance outcomes as outlined in the County contract and reported the performance outcomes to the Department of Public Social Services (DPSS). The performance outcomes included increasing employment and work participation rates and reducing sanction rates.

We did not perform test work in this section because performance outcome data for IILA was not available. DPSS indicated that they plan to review the Agency's performance outcomes once the data is available.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue were properly recorded in IILA's financial records and deposited timely in their bank account. In addition, determine whether the Agency maintained adequate controls over cash.

Verification

We interviewed IILA personnel and reviewed financial records including the Agency's bank reconciliations for January 2010.

Results

IILA properly recorded revenue. However, IILA's bank reconciliations were not signed or dated by the preparer.

Recommendation

2. IILA management ensure bank reconciliations are signed and dated by the preparer.

UNSPENT REVENUE**Objective**

Determine whether IILA's Fiscal Year (FY) 2008-09 payments reconciled to the Agency's accounting records.

Verification

We traced IILA's FY 2008-09 payments to the Agency's accounting records.

Results

IILA's FY 2008-09 payments reconciled to the Agency's accounting records. In addition, IILA did not have any unspent revenue for FY 2008-09. Specifically, the Agency's \$621,000 in service area one (SA1) expenditures exceeded their \$603,000 in SA1 revenue from DPSS by \$18,000 and the \$665,000 in service area two (SA2) expenditures exceeded their \$628,000 in SA2 revenue from DPSS by \$37,000.

Recommendation

None.

EXPENDITURES/PROCUREMENT**Objective**

Determine whether program related expenditures were allowable under the County contract and properly documented.

Verification

We interviewed IILA personnel and reviewed financial records and other documentation for 38 non-payroll expenditures totaling \$28,436 that the Agency charged from April 2008 through January 2010.

Results

IILA did not appropriately allocate \$4,684 in fixed asset and equipment costs to the REP Program in accordance with Office of Management and Budget (OMB) Circular A-122 requirements. Specifically, IILA inappropriately allocated equipment costs based on the number of programs managed by the Agency rather than using an allowable allocation method (e.g., staff salaries). As a result, IILA charged \$2,532 in unsupported equipment costs to the Program. In addition, IILA inappropriately allocated \$2,152 in equipment costs to SA2 rather than allocating the costs between both SA1 and SA2.

To ensure costs are appropriately charged to the REP Program, IILA needs to review and reallocate all equipment costs charged to the Program during the contract term, provide DPSS with supporting documentation and repay any resulting unspent revenue.

Recommendations**IILA management:**

3. **Work with DPSS to review and reallocate all equipment costs previously allocated during the contract term and repay any resulting unspent revenue.**
4. **Ensure that equipment costs are allocated in compliance with the County contract.**

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE**Objective**

Determine whether IILA maintained sufficient internal controls over its business operations and if the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed IILA personnel, reviewed their policies and procedures manuals and conducted on-site visits.

Results

IILA maintained sufficient internal controls over its business operations and complied with other program and administrative requirements.

Recommendation

None.

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether IILA's fixed assets and equipment purchased with REP funds were used for the Program and were safeguarded.

Verification

We interviewed IILA personnel and reviewed the Agency's fixed assets and equipment inventory listing. In addition, we performed a physical inventory of 13 items purchased with REP Program funds totaling \$12,098.

Results

IILA did not properly allocate \$4,684 in FY 2008-09 fixed asset and equipment costs to the REP Program as discussed above. Also, for five (38%) of the 13 items reviewed, information on IILA's fixed assets and equipment list was inaccurate. Specifically:

- For four items, the items were charged to the incorrect program.
- For three items, the acquisition cost was inaccurate.
- For one item, the item description was incorrect.
- For one item, the asset identification number was inaccurate.

In addition, the Agency traded in one fixed asset while purchasing another fixed asset and did not report the asset disposal or purchase to DPSS as required.

Recommendations**IILA management:**

5. Ensure the fixed assets and equipment listings are accurate.
6. Report all equipment purchases made with REP Program funds and any asset disposals to DPSS.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll expenditures were appropriately charged to the REP Program. In addition, determine whether IILA obtained background clearances and verified employment eligibility for the REP Program employees.

Verification

We traced the payroll expenditures for seven employees totaling \$10,005 for January 2010 to the Agency's payroll records and time reports. We also interviewed staff and reviewed seven personnel files for REP Program staff.

Results

IILA overcharged payroll expenditures to the REP Program for five (71%) of the seven employees reviewed. Specifically, the five employees' pay rates exceeded the rates allowed by the contract, resulting in overcharging the REP Program \$751 for the one pay period we reviewed. For example, IILA paid and charged the Program \$28 per hour for one of the employees although the contract budget only allowed for \$18 per hour. In addition, this employee worked 14 hours of overtime during the pay period reviewed and IILA charged all of the overtime costs to the REP Program rather than allocating them between the programs benefiting from the employee's services.

The total amount overcharged for the Agency's employees during the entire contract term may be significant. Once corrected, IILA may need to return any resulting unspent revenue to DPSS.

Recommendations**IILA management:**

7. Work with DPSS to review and correct employee salary costs for the entire contract term based on the rate of pay indicated in the contract budget.

8. Return any unspent revenue to DPSS.

COST ALLOCATION PLAN

Objective

Determine whether IILA's Cost Allocation Plan was prepared in compliance with the County contract and used to appropriately allocate shared program costs.

Verification

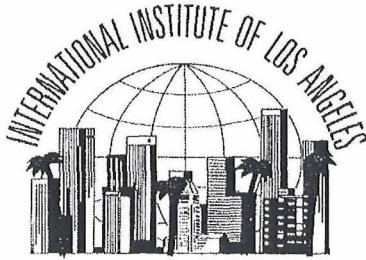
We reviewed the Cost Allocation Plan and a sample of expenditures IILA incurred during April 2008 through January 2010.

Results

IILA's Cost Allocation Plan was generally prepared in compliance with the County contract. However, IILA's Cost Allocation Plan does not specify an allowable allocation method for shared fixed assets and equipment as required by OMB Circular A-122 requirements. As a result, the Agency did not appropriately allocate costs to the REP Program as discussed above.

Recommendation

- 9. IILA management ensure their Cost Allocation Plan specifies an allowable allocation method for shared fixed assets and equipment.**



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PRESIDENT AND CEO, E. Stephen Voss

October 20, 2010

Ms. Wendy Watanabe, Auditor-Controller
County of Los Angeles
Department of Auditor-Controller
Countywide Contract Monitoring Division
350 South Figueroa Street, 8th Floor
Los Angeles, CA 90071

Dear Ms. Watanabe:

We have the following explanations with respect to the findings and comments in the second draft of audit report dated October 6, 2010:

Page 2 PROGRAM SERVICES

IILA met with DPSS in early August 2009 to let them know that since DPSS refused to pay for any REP clients served beyond the caseload ceiling (in early August we were **66% above this ceiling**), we would not enroll or schedule appraisal interviews for any newly referred clients. We told DPSS that they would need to find other REP agencies to serve these clients. DPSS came up with a caseload reduction and equalization plan which was completed in late November 2009. On September 14, 2009, DPSS staff asked IILA to continue enrolling REP participants in the El Monte area. We were unable to do so until late November when the IILA caseload was reduced to funding ceilings. DPSS understood that we would not accept any additional clients beginning August 14, 2009 until the caseload reduction/equalization plan was implemented. For the Fiscal Year Ended June 30, 2009 we incurred significant deficits (over \$55,000) due to our excess caseloads-despite earlier public DPSS assurances that we would be paid for all clients served. We simply could not continue to enroll clients and continue to incur additional deficits when we knew that we would not be paid for these additional clients. In late November we again began enrolling clients as caseloads began to decline due to the DPSS reduction/equalization plan implementation. We did not enroll clients or schedule appraisal interviews for new REP clients from August 14, 2009 until late November 2009 due to IILA's extremely high caseload.



A UNITED WAY, INC. AND U.S COMMITTEE FOR REFUGEES AND IMMIGRANTS MEMBER AGENCY

Page 3 CASH/REVENUE

Bank reconciliations are being prepared on a timely basis. However for auditorial requirement, the reconciliation sheets will be signed and dated by the preparer.

Page 4 & EXPENDITURES/PROCUREMENT
Page 5 FIXED ASSETS AND EQUIPMENT

- | | |
|------------------|---|
| 1 Projector | It was pre-determined at the time of acquisition that REP SA 1 and REP SA 2 would equally be benefited for the use of the projector. |
| 4 Television | The booking of \$470 charged to REP SA 2 was correct, however, the asset was inadvertently listed as asset of REP SA 1. |
| 9 Printer | The cost of the printer of \$488 was booked 39% or \$190 to REP SA 1 and 61% or \$298 to REP SA 2. This allocation was simply based on the salary allocation of the staff using the printer. The acquisition cost of \$488 was erroneously indicated in the inventory list as \$299. |
| 12 Shredder | The shredder is being used by REP SA 1, REP SA 2 and RHMP. The total cost was equally allocated to these programs. However, the inventory listing failed to include RHMP. |
| 11 &
13 Table | The conference table initially acquired should no longer be appearing in the inventory list as it was traded for another table costing \$2,152. The cost of this new table shown in the inventory list as \$2,265 is in error. The total cost of \$2,152 was charged to REP SA 2 based on the notation on the invoice made by the REP Program Director. |

The proper tagging and description will be done.

Page 6 PAYROLL AND PERSONNEL

The REP program is a reimbursement program based on **payment for services**. This means that we are paid a set amount for each client that we serve. Nothing in our contract stated that we were required to request a budget modification in order to increase a salary above the budgeted line-item amount in our proposal submitted in 2007. We provided modest cost of living increases for staff. Nothing in the OMB circular which governs this contract states that we are required to ask for a budget modification. No bulletin from DPSS stated that a request for budget modification was required. No DPSS staff ever said publicly in a meeting or training that budget modifications were required if we anticipated that expenses would exceed our line-item budget projections from the original proposal. The most important point here is that this contract is "payment for services". As stated above, our expenses for the audited year were \$55,000 above the caseload reimbursable ceiling budget.

Page 7

COST ALLOCATION PLAN

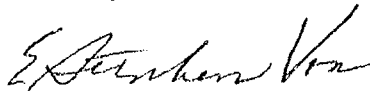
The Allocation Plan, a copy of which was furnished to the auditors, shows that for equipment, the basis of allocation is by direct identification by program. In other words, the cost of an equipment is charged to the program that needed and effected the acquisition. A portion of the cost is not allocated to other programs unless it is initially determined that there would be a joint use of the equipment.

The Allocation Plan does not specifically indicate the method of allocating the costs of shared fixed assets and equipment. The specific method of allocation depends on the respective extent of the need of an equipment by the programs. This can be ascertained, though by estimation, when the need for an equipment arises. This concept of allocation can be reflected as follows:

- The projector was predetermined at the time of acquisition that both REP SA 1 and REP SA 2 would be using the equipment. As both programs would derive the same benefits, the cost was equally shared.
- It was initially ascertained that the shredder would be used by REP SA1, REP SA2 and RHMP. The respective extent of use for the equipment is on equal basis. Accordingly one-third of the cost was allocated to each program.
- The printer is being used for REP SA1 and REP SA2 by a designated staff who is rendering services for these programs. As the respective use of the printer for the programs was not fairly measurable, it was deemed preferable that the alternative method to allocate the cost was to apply the same percentages being used in allocating the salaries of the staff between REP SA1 and REP SA2.

In the event you need any clarifications on the foregoing explanations, please contact Joy Hofer, VP-Program Operations, Lilian Alba, Director of REP Program or Hermi Evangelista, Director of Accounting at (323) 224-3800.

Sincerely,



E. Stephen Voss
President and CEO

cc: Joy Hofer, IILA VP-Program Operations
Hermi Evangelista, IILA Director of Accounting
Lilian Alba, IILA Director of REP Program